

The Free

"If you don't create a free market, a black market will emerge"

Market



NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE - www.freema.org/Newsletter/index.phtml

NEWS

LFMI withdrew from the Sunrise Commission

Regretting that a good initiative has failed, the Lithuanian Free Market Institute (LFMI) withdrew from the Sunrise Commission, March, and ended its three-year participation in this movement. The reason why LFMI made such a decision was seeing that the work in the Sunrise Commission has become utterly ineffective: attempts to revive the Sunrise have failed, political will to implement the program for improving business conditions is insufficient, members of the working groups are being isolated from information and the proposed solutions are distorted or ignored.

The Sunrise initiative was started in Lithuania in 1999, which was designed to increase the efficiency of the government's work and to round up the business community and specialists who would identify the sorest problems that inhibit business activities. LFMI joined the Sunrise movement from the very start, taking part in the activities of the Commission and its working groups.

Although the government and the parliament welcomed the proposals of the "first Sunrise" (during the Kubilius administration) and a number of them were immediately debated and adopted, eventually the situation assumed an opposite trend. Proposals of the Sunrise Commission were modified, delayed or absolutely ignored, the working groups ceased to receive information and drafts of legal acts. Simultaneously, the government was taking decisions that apparently ran counter to the declared course of improving the business climate. The Sunrise Commission became formal and ineffective. As a result, members of the working groups lost motivation to work and devote their time, and the business community, seeing no positive decisions, gave up on this initiative.

Seeing the worsening situation, LFMI made repeated attempts to prove that the Sunrise initiative, if properly exploited, could bring an impressive array of positive results. LFMI submitted a number of proposals on how to accelerate the implementation of the decisions of the Sunrise Commission, how to ensure that the adopted legal acts are not in conflict with the ideas of the Sunrise. Sadly, attempts to animate the Sunrise movement failed because of an evident lack of political will to change business conditions.

Although withdrawing from the Sunrise movement, LFMI will continue searching for more effective methods to improve the law-making process that would allow improving the business environment, creating new jobs and increasing personal income.

ISIL World Conference 2003 in Vilnius, Lithuania

On July 6-10, 2003, the Lithuanian Free Market Institute, the International Society for Individual Liberty (ISIL) and the Libertarian International will hold an international conference "Toward Liberty: Turning Principles into Reality" which is designed to facilitate the growth of libertarianism around the world. The ISIL's international conferences attract many prominent people of different interests and backgrounds from different parts of the globe and all of whom are united by love to the ideas of individual liberty. Since 1982, the ISIL's annual world conferences have been held in Russia, Estonia, the Czech Republic, Mexico, Costa Rica, Canada, Southeast Africa, and other countries. This year the ISIL's annual conference will take place in Lithuania, one of the leading countries that transform the communism regime to a free market economy.

The conference will focus on four major areas: do and how do principles of liberty work?; lessons on implementation of the ideas of liberty; liberty through political decisions – is it the right way; and are we getting closer to the ideal of liberty? The organizers have invited the following prominent speakers: economic advisor to the President of the Russian Federation Mr. Andrej Illarionov, former Advisor to Mr. Gorbachiov Mr. Jurij Maltsev, Vice President of the official opposition party of Belarus Mr. Jaroslav Romanchuk, famous Canadian philosopher Mr. Jan Narveson, member of the ISIL's Board of Directors Mr. Ken Schoolland, American philosopher and Director of Liberty Foundation Mr. Doug den Uyl, former Prime Minister of the Republic of Estonia Mr. Mart Laar, apologist of liberty ideas in Lithuania and philosopher Mr. Algirdas Degutis, Chair of LFMI's Council Ms. Elena Leontjeva, and others.

Besides truly prominent speakers, the conference participants will be offered a visit to the Grutas Park ("Stalin World") and a remarkable post-conference tour around the capital and its marvellous surroundings. The conference will take place at the Reval Hotel Lietuva, Vilnius, Lithuania. For more details on the conference go to LFMI's website

<http://www.freema.org/Events/isil.phtml>.

LFMI presents the eleventh survey of the Lithuanian economy

In February, LFMI presented the eleventh survey of the Lithuanian economy which is based on market participants' estimates of 2002 and updated forecasts for 2003. The survey, conducted in January 2003, shows that last year the Lithuanian economy was rapidly growing, people's income was increasing, although the financial situation of enterprises slightly deteriorated. It is forecasted that in 2003 the economy will continue to grow steadily, household income will continue to rise and corporate indicators will improve.

According to the LFMI survey, GDP grew by 5.2 percent in 2002 and a similar trend is expected to persist this year. Consumer prices were estimated to rise by 1.3 percent last year and, according to the LFMI survey participants, will go up more rapidly in 2003, by 2.4 percent. In late 2002, unemployment dropped as compared with the end of 2001. It is expected that it will continue to slump and will stand at 11.8 percent in late 2003. Average net earnings, which grew sizeably in 2001, did not change last year and totalled 1,039 litas per month at the end of 2002. However, they are expected to increase by four percent, to 1,081 litas, in 2003. Household income, savings and investments grew last year and this trend will remain in 2003.

A survey of the Lithuanian economy was launched in 1997 to provide estimates and forecasts of macroeconomic variables in Lithuania based on the standpoint of market participants. The LFMI survey is based on the expert consensus paradigm originating from the theory of rational expectations.

FEATURE

Quite recently, the Government of Lithuania presented to the parliament and the public a report on its activities in 2002. Following the tradition, the Lithuanian Free Market Institute commented widely on this report and expressed its opinion about the 12th administration's policies pursued last year. The following article was printed in the national daily Lietuvos zinios.

A Lucky Government

By Ruta Vainiene, Vice President, LFMI

Whichever way you look at it, the 12th Government of Lithuania¹ is lucky. Any political power could envy such an unseen success. Glaringly, the Government "affords itself" playing pranks such as showing journalists out of the meeting hall,² restricting access to draft laws,³ adopting decisions and

¹ Since independence was restored in 1990, Lithuania has had 12 administrations. The 12th Government of Lithuania was formed from Social democrats and Social liberals on 12 July 2001.

² Media representatives used to be allowed into the meeting hall of the Government House to listen to, and record,

proposing to the parliament draft laws that are clearly aggravating business conditions. The Government is planning to introduce progressive taxes and... nothing terrible happens! Gross domestic product is growing, unemployment level and tax burden are on the decrease, budget revenues are rising, Lithuania is being invited to NATO, the negotiations for EU membership are coming to the end, and the "delinquent" Government continues working. So what is going on? Were they wrong saying that the higher the level of freedom of the market, the wealthier people are, or are these economic laws just not functioning in Lithuania?

Not to worry, everything is fine both with Lithuania and the economic laws. A consequence and a reason are usually separated by a time gap. Processes ongoing in the market and an administration in power can have nothing or so little in common that the government can be helpless to halt these processes. Thus, today, we observe the results of the long awaited phenomenon – market reforms of the thirteen years. The fruits of privatisation launched in 1991, of the *litas*⁴ strengthened by the Currency Board in 1994, of the Sunrise and Sunset initiatives that succeeded in 1999 and of many other market-oriented reforms are ripe. An impressive economic growth, increasing income, and new jobs that were pointed out by the 12th Government in its Report for 2002, are not the result of its activities alone. But this "insignificant" detail was not hinted at in the Report, while all the merits were gladly appropriated. Yes, this Government was everywhere: it stopped the growth of unemployment and created 64 thousand new jobs, it transported 36 million tons of railway cargo, vaccinated, computerised, exported, and so on.

Let's be fair - the twelfth Government also did what it should do: it drew draft laws on taxation from drawers, wiped off the dust and presented them to the parliament⁵; it finally stirred the matters of pension reform, continued privatisation, and adopted some sensible and some poor decisions. Activity (not to be confused with strategic thinking or essential reforms!) is a really good feature of this Government. But the matters are made slightly worse because at times the Government would get lost in details, and things are absolutely spoiled when the Government would get lost in itself. Restricted access to draft laws, closed sittings, disengaged "microphone of journalists", dissociation from the public at large – such style of work would not be tolerated if Lithuania were a member of the European Union. However, the 12th Government was lucky again! It was neither reprovved nor punished for such an "independence." Let's hope that this Government is the last one who can afford such arrogance.

To read the Government's Report for 2002 is an entertaining occupation. For instance, it is interesting to learn how much

government sittings until the 12th Government revoked this long standing practice. Journalists could hear entire sittings through microphones which later were turned off.

³ The 12th Government ceased to provide draft laws to various non-government organizations, interest groups, etc. so that they could not get familiar with its contents before they were adopted by the government.

⁴ Lithuania's national currency.

⁵ All major laws on taxation were amended or new versions were passed during the 12th administration.

money it spent and for what purposes. No doubt, spending money is an important objective of the Government that takes a lot of ingenuity and efforts; concealing it would mean not telling the public what the sittings are about. The Government has executed these (expenditure) plans very well. It is also very amusing to search for items that have not been enumerated in the Report. Well, the Government did not mention the expanded base of taxation, increased (or proposed to increase) excise taxes, raised social insurance contributions, rejected resolutions of the Sunrise Commission, and a number of other deeds. It does not say anything about a healthcare reform that has not been launched, a launched “reform” of higher education that has not been overhauled, a tangled tax regulation that cannot be untangled even by tax inspectors themselves. It takes no time to realise that the Government is blind of an eye. This only indicates that it is an optimist. So, the Government was lucky again.

Finally, while reading the Report, it is fascinating to make guesses at what the twelfth Government did for Lithuania. Most interestingly, this contribution will be seen only in a year or so. But at that time there will be another government in Lithuania, and Lithuania will be different: it will be a state of Europe (I hope for that). Look here, the twelfth Government is lucky again! Because when the results of the current Administration’s bad deeds will start surfacing, it’ll be possible to write them off as expenses of EU integration, or the benefits of EU integration will offset the negative effects. All the tribulations will not be attributed to the twelfth Government, or they will not be seen with the naked eye. What else could they desire?

FEATURE

The following article presents an overview of the Lithuanian economy in the year 2002. It outlines major events of the year and provides insights into their effects on the future of Lithuania. The article was written at the very end of 2002 and published in a magazine “Naujasis židinys-Aidai” (2003 No.1-2).

Longing for the Goldfish

By Guoda Steponavičienė, Vice President, LFMI

Last year was rich with events. It twinkles in the eyes from the abundance of goods as is in a fair: the finish of the marathon towards NATO and the EU, a record growth of the economy, a new episode of the Mazeikių oil refinery thriller,* a peaceful revolution of tax system, long-term strategies and agreements, and municipal and presidential elections to crown the year. Such phenomena as European integration or the need for structural reforms, complicated as they are, influenced markedly other areas. For instance, a rapid economic growth indeed facilitated the work of Lithuanian negotiators for the

EU; on the other hand, good prospects of integration had a positive impact on the economic climate. However, the European influence was not necessarily positive. For instance, the decision not to reform the General Agricultural Policy in the EU practically justified the old agricultural policies in Lithuania, and the doubts regarding the stability pact declared by high EU officials justified a budget deficit in Lithuania. This leads to several conclusions. First of all, the faraway world is in our backyard, so it is time to take its concerns as our own: not just analyse, but also evaluate them in the light of our interests. And this has to be done not in a year or five years, but at the moment when decisions are made. Second, as we say, it is not the saints who make the pots – the pots we admired from the distance for so long look a bit cracked when we get closer to them, so it is not enough to copy them. We need to think ourselves and adopt what is acceptable, and create what is still missing. Therefore, looking back at the previous year, it is not the events, but the presentiment between the lines that evoke more thoughts.

When sabre rattles, the muses are silent

The NATO case involves both a lot and little of economy. The direct goal of joining NATO is the security, which is one of the most important, therefore, the most expensive goods. There is no much talk about as the decision is made: two percent of GDP will be allocated for purchasing of this good and nobody seriously argues about it. Meanwhile, there are a lot of various talks about the consequences of the NATO membership for the economy – starting with the claims that it will bring oceans of investments immediately and ending with the “proofs” of no impact whatsoever. Even without getting deep into the long rows of figures, it is safe to say that bigger security will have a favourable effect on the economy – peaceful existence is the major precondition for the creative human activity, and loosing security turns to nothing all other factors, which we are so minutely and carefully analysing.

Back to the centre of Europe

The EU membership is a much more combed through topic, still reminding of a fur of collie that has not been brushed for a week. The main reason for it is the mystery of the EU itself. The Old Europe is full of paradoxes: everybody realises and even talks that the general agricultural policy is ineffective and discriminative, however, it remains untouched. The stability pact regarding the restrictions of countries’ budget deficits was referred to as stupid on the highest level just because it is not being implemented by the most influential EU member-states. It is constantly being cried loud that the productivity is growing slowly, however, increasingly more areas are being harmonised, which eliminates the driving force of the growth – competition. Finally, at the time when the Convention is discussing what kind of formation the EU is going to be, the hallway is filled with the new members that have fulfilled all the membership criteria but clearly belong to a different category of weight. No wonder that the rhetoric is becoming more and more abstract: processes are difficult to forecast as they are, and we need to forecast the forecasters themselves (not to mention the balance between the “large-small”, “North-South”, “old-new” and the rest). Quite convincing is the explanation of the Europhiles that one should not understand Europe but love it (just like Russia?), but this approach hardly helps making economic decisions.

* In 2002, the strategic investor in this company, the U.S. *Williams International*, secretly planned and later sold its share in the company to the Russian company, *Yukos*.

It is therefore not surprising that those who can and when they can do not take decisions, and the economy in Europe, in spite of all popular programs, is hardly moving forward: according to the European Commission, the economic growth of euro zone reached barely 0.8 percent in 2002.

How comes that Lithuania is galloping like a roe?⁶ That is because it is lagging behind heavily. First, the examples of good life forces to act - similar needs do not correspond to adequate possibilities. Second, looking from a distance, our own problems are much closer than the general ones; therefore the latter do not show their scale.⁷ Third, there are still chores to do in our own backyard without facing the weight of good/stable/secured/politically correct European life and fragile working tools of the reformers (*The Economist* referred to the new provision of the German law on pensions, which allows directing 1 percent of the mandatory social contribution for accumulation, as „tremendous shift“). It is likely that this year is the last when we can analyse the integration matters as if from aside. Next year, such convenient arguments as “mandatory EU requirements,” “orders from Brussels,” and “them and us” will be eliminated. We are becoming them, those who were dreamt of and idealised. But we do not become ideal. A high official from the midst of the whirlpool of integration process spilled out loudly the idea (which occurred to many) that the invitation of Lithuania for the negotiations is the proper time for us to think why we are going there.

The answer seems to be evident. We are going there because we are a part of Europe, therefore after joining the EU we will not only be in Europe but will also be able to participate in it. However, I have not heard a single politician in Lithuania (analysts – sometimes) to show that he truly realised the negative or dubious sides of the impact of the EU rules of the game. The general attitude is “let’s join and then we’ll see” (through the window of a train going on a set route?). At a conference held in December in Vilnius, Mart Laar, a politician of the reserved Estonia, made it plain that Estonia is seeking to get at the steering-wheel and to change the course together with other candidate-states and Great Britain. The slides with the images of *Sajudis** in the background of this speech were very eloquent.

At that time in the parliament, the head of the Committee for European Affairs and a member of the European Convention demonstrates his knowledge by quoting various signs of “being in the process,” though one can find neither the problems nor their solutions, nor the interests of Lithuanian people, nor the Government’s position among them. If one was sure about the course, it might be quite a pleasant journey, but the course is changing in the process, and at times, the rails are missing. Therefore, we spare no money for the bureaucrats’ trips to Brussels: somewhere, there must be the soldiers who wish to become generals, and the passengers who will dare to drive.

⁶ The official forecast for GDP growth in 2002 – 5.1 percent (later estimated to be 6.7 percent).

⁷ This is demonstrated by zero or only formal discussions regarding the future of Europe, particularly during the presidential campaign.

* *Sajudis* - a movement for Lithuania’s freedom which was founded and acted at the beginning of the last decade.

The taste of a red candy without borders

As one French right-wing intellectual said with a note of melancholy about his home-country, “*in this old socialist country...*” the attitudes and habits are changing slowly, only their outfit is changing faster. The French taxpayers generously feed their powerful state apparatus, the taxpayers of their Northern neighbours feed the breeders of their delicious pâté animals, and those who are only fed occasionally (e.g. railway workers) go on strike when they get hungry. Scandinavians are nearly breaking under the tax burden, their bureaucrats are amazingly effective, and every ply of society receives some kind of special aid, therefore, they do not count somebody else’s money. The Dutch smoke “grass” in public, and the British want to measure everything in pounds and hunt foxes with hounds. So, why would Lithuanians suddenly stop liking the “wet sausage,”* cheap electricity, and newspaper pages with crime reports? No wonder that the old new social democrats also see the same ways to achieve these goods – to appropriate and distribute fairly. After a long process of creating and discussing, a long-term strategy of economic development of Lithuania was approved in November. There are many exciting things there, but I would like to discuss only one statement, saying that Lithuania is on the way towards creation of the welfare state.

But at first, we should make clear what a welfare state means, because it seems that every state, at least the democratic ones, acts for the welfare of its citizens. Would people elect the government that has any other purposes? The term of “welfare state” is normally used to underline the aspect of the state as the provider of welfare. It primarily manifests through heavy redistribution through the budget. Heavy redistribution means, first of all, high taxes, second, the role of state administration as the distributor of resources. The more funds are redistributed through taxes, the more decisions regarding the utilisation of the funds are taken by the government. The more decisions the government takes, the more specific rules as to how fund recipients must behave are created, and the larger administrative apparatus is needed. This whole construction of concrete seems to be stable (the leftists like to boast about stability), orderly (when reading the programs of the presidential candidates it seems that order is the most desired value in Lithuania) and heavy. A perfect version of such a building is socialism. Its excellent prototype still exists in Kaliningrad.* It would not be correct to write that the construction is standing: it is sinking to the ground, slowly and assuredly. The samples of Western socialism are built from better materials, painted in more vivid colours, and perfumed. When living in comfortable houses, such growth might seem sufficient – there no where to hurry. The residents of our multifamily buildings hardly think so. With an annual economic growth of one to two percent, we can probably

* Wet sausage started to be produced in the Soviet times and was popular in the entire territory of the former Soviet Union. This sausage is still produced in Lithuania and is often called a relic of the Soviet regime.

* Kaliningrad is a town of the Russian Federation. The Kaliningrad Region is an enclave situated among Poland, Lithuania and the Baltic Sea.

expect to paint the walls in ten years. The welfare in rich countries and their current economic policy are different things. The welfare was created there much earlier; therefore, there are things to be distributed now. We can only distribute in the way of an undersized sheet. And if we want to shell out in equal shares, we don't get even that. As Lithuanian industrialists like to say, arithmetic is not only division and deduction, but also addition and multiplication.

It is only normal that we watch other countries and that we wish to learn from others' mistakes, but having copied one or two elements from the system of rich countries, our own systems will not start functioning. It takes simple logics to understand that: if a brown bear is a strong animal, it does not mean that any brown animal is strong. But a simple wish is not enough to apply the logics. It is so tempting to believe that a money-tree can grow from a silver coin in the soil. On the other hand, "welfare states" no longer seem so attractive to the Europeans themselves. First of all it is because with the slowdown of economic growth, the garner for distribution is running dry. Citizens, so well protected from unemployment and poverty by the state, do not want to and perhaps no longer can jump into business - a realm of constant uncertainty, risks and responsibility. Notably, an individual easily gets used to the well-being and his desire for the good, dissociated from his personal efforts, has no limits. So it is small wonder that not only the oddities of Europe - the right-wing economists - envisage the prospects of "the broken washtub." On the other hand, new problems are emerging. People live longer, but they retire at a similar age, the migration is increasing as before.⁸ These factors disable the pension, healthcare and social support systems - the areas, which form the "wellness" of "the welfare state." It is difficult to forecast whether the politics will manage to change before the fall of the myth of a guaranteed welfare. Judging from the events in Germany, France, Italy and the agreements of the EU officials, it is not likely to. The solution to this problem in "the welfare states" will depend on their traditions, the influence of trade unions and some more down-to-earth factors, such as oil resources. However, one question remains painfully open - why are we introducing in Lithuania the systems, which the West is willing but is not able to dismantle? Of course, it is very easy and nice to introduce the pay-as-you-go pension system or *Bausparkasse*-type banks (you almost become the saviour of the nation), but it is practically impossible to eradicate them painlessly.

Did the authors of Lithuania's long-term strategy think about that? I wouldn't say so. Why think so much, just follow the analogies. It does not matter that the analogies themselves don't know where to hide.

I cannot help remembering another famous strategy - "step by step", which was not called a strategy and formalised, but was actually applied in the transition from planned to market economy in Lithuania. It was clear already then that cutting off a dog's tail for a week is not the best expression of love for

⁸ In the economic sense, migration is not a homologous phenomenon. It makes some problems sharper (e. g. the social settlement allowances for immigrants, the increased competition in certain segments of labour market), but defuses other (e. g. the income balance of the pensions financed from the current pay-as-you-go contributions).

animals, but some tails are still being shortened in the same way. For example, promises are made with serious faces to compensate everybody for the needed medicaments, to increase pensions without raising taxes, to guarantee stable prices for heating and other utility services (at the same time making investments into new equipment in these entities). Some candidates during the presidential election campaign were particularly inventive with such promises. The election programs dazzled with such statements as "state institutions shall guaranty a satisfactory level of employment", "agriculture should be made a strategic area of the economy," etc. It just does not happen in reality. To understand that, it is enough to apply at least one of the existing laws - the limited resources, Murphy's, energy conservation or "the broken washtub" laws - the choice may be made according to one's profession or taste.

In whose forest the cones grow?

There are other laws, too. Those that function during certain periods or for certain categories of people. Ideologists of the ruling coalition have announced and are now exploiting a new economic law: decisions of politicians have such an impact on the economy that the results show in the growth of GDP in the very same year. It is interesting to note that this law is suspiciously asymmetric: politicians remember it when the growth is good, but when there's nothing to boast about, another law is applied, say, the one about "how V. Landsbergis destroyed the collective-farms." The opposition is right behind with its desire to distinguish itself. The right-wing opposition parties that nurtured the pension reform but did not start it vote against it in the parliament, even though they agree in principle with the arguments that the model of the reform is appropriate.

The social democrats happened to be in power at a peculiar time. They were both lucky and unlucky. Lucky, because the economy is growing, budget revenues are being collected, the interest rates are dropping, investment agencies have increased Lithuania's ratings, no grave crises occurred and hopefully will not, Lithuania is being accepted to NATO and the EU, Lithuanian achievements and its negotiators are praised all over Europe. It's a pleasure: you can rejoice over yourself and others. Problems come up because of those others: one desires to rejoice over oneself, but here one has to share the achievements with the former governments, coalition partners and among the parties inside the party. It remains to appropriate the dividends of others' merits and be sincerely surprised that the economists do not write works of praise for the leftist government who rose up the economy. Another reason for misfortunes is the fact that when the economy is growing, it is easy to see that the unreformed areas are impeding the growth. You can pretend to have nothing to do with that all, but it's clear for everyone that reforms have to be done at the time of economic boom. And the European Commission reminds in the Report on Lithuania's Integration Progress of 2002 that "Lithuania should be able to cope with

* Vytautas Landsbergis was the leader of the movement *Sajudis* and of the first parliament in Lithuania who proposed giving the collective farms freedom to re-organize into cooperatives or private farms and plan their further activities as they choose. Naturally, many farms collapsed or went bankrupt. Since then, Mr. Landsbergis has been blamed, especially by agricultural workers, for destroying collective-farms in Lithuania.

the competitive pressure in the Community if concerted efforts are made further to implement structural reforms.“ It is high time, and it has been high for a while, to reform the systems of social security, education, healthcare, public administration and agriculture. Even one of these sectors would be enough to make the whole euphoria about the economic growth to evaporate. Not just because the reforms are costly and incomprehensible for many electors (particularly the leftists). What can we expect from electors when the authors themselves do not know what should be done, and they are not even attempting to find that out? Leaders and executors are not enough for this task; we need architects. Surely, architect is a profession that requires both knowledge and the courage of thought. There are many architects working in Lithuania, but they design houses, concerts and businesses, explore and try the European waters. Therefore, the culture and the economy are growing and getting more European. For politics it is more difficult to grow: it lacks architects who would like to create instead of sitting quietly locked up as the A. Brazauskas government.* No, it is not as bad as one could expect after reading its program. But its major value is not trying to change anything from the essence. Therefore, where political decisions have been made previously, people may work efficiently, but where they haven't been – a new quality (often even the hope) does not emerge. On the other hand, we should not expect too much: by definition, social democrats are not supposed to change the structures nurtured by socialism.

No deserts, but plenty of ostriches

Even though it was not part of their plans, the social democrats were forced to start one structural reform. I am saying, “were forced to,” because the process of adopting this decision and the scale of reform demonstrated that this was a forced reform. I am talking about the pension reform, after which, starting from 2004, people will be able to transfer 2.5 percent of their social insurance contributions for the funded pension system. The reform, which was modelled and shaped to cater to the parliament by three consecutive governments, turned out to be more liberal than the one proposed by liberals. If everything goes as planned, we will have to praise the left-wing for finally recognizing the processes that have already started and not attempting to build new water-power plants to dam up the river.

Another stone, tied to the legs of society is the healthcare system. The scandal about the government's debts to producers of pharmaceuticals forced the government to remember this sector this year. But not about whether the doctors obtain appropriate education and perform their job and treat their patients properly. Not even about the doctors' salaries. The state officials contemplated the payments from the obligatory health insurance fund to compensate for the medicaments. And there's nothing to be done: at fault of that wicked capitalism, new and better medicaments are appearing on the market, they cost more, people want them, but paying for medicines is not usual in this country. The left-wing party is definitely not the one who would start accustoming people to that. They chose other ways to manage expenses – by introducing quotas for medicaments that can be compensated. Their essence is: nine

out of ten diseased hardly pay anything for the “compensated” medicines, and one has to pay a full price. That one had bad luck. But who would hear his voice in the culture of the majority? (It is only important to have a reserve to satisfy those who have the mobile phone number to call the Chairman of the Parliament). This is much more convenient than having to explain to the other nine that they have to pay a part of the price. However, even the expenses under quotas exceed the income (another law: subsidised goods are always scarce goods). In 2003, we will learn about new debts of the Patients' Fund. We should then expect even stricter and by all means administrative measures, which should balance the budget on account of the mousy citizens and the producers of pharmaceuticals. The accounts of the latter are much bigger than those of the former, but they are free not to be brought to Lithuania at all. Therefore, there is a risk that there will not be certain medicines left in this small strict country.⁹ Healthcare politicians might quite like it: no medicine, no need to compensate for it. But the demand is already there and it is not to be satisfied so easily. It is not agriculture where the dissatisfied are simply paid when the reforms are too difficult or unwanted. The consumers of the healthcare system are all citizens of Lithuania, so the funds will be by far insufficient to pay them all. The question is whether this government will manage to finish its ruling before this house of cards will completely fall apart. If not, bad luck for them, because they will not be able to build a flying ship.

It is clear that agriculture will not be reformed in the nearest time in Lithuania. Because it is possible to buy it, as mentioned earlier. Particularly with the help of the EU funds. Besides, the EU dictates the trends here, and in spite of the efforts of Germany and Scandinavian countries, the general agricultural policy survives there. The assimilation of the EU funds is a new obsession in our public policy (almost as mystical as the aid to small- and medium-size business). As could be expected, when released to life, obsession mutates and turns into aspiration: “let's take as much as possible from the EU budget.” It does not matter what we will do with the money and what we will get out of that. At first sight, it often seems that there cannot be too much money. No, it will not turn into clay upon uttering “enough”, it will just direct ineffectively the resources (both financial and labour). From here – one step to Khrushchev's corn growing. Only not because somebody tells to, just because somebody subsidizes. The trick that is well known to the sales people – “special discount just for you” or “last minute trip” – and you end up buying something you otherwise would have never bought.

Forever bad

We could find plenty of things that are always bad in Lithuania, especially if we presented this question for a sociological survey. However, some of the things are bad not because of the attitude of their evaluators, but because of the nature of the object. These are privatisation, budget and taxes – the processes, where somebody gets, somebody gives. And nobody has found a magic formula so far how to make them indisputably “fair.”

* The 12th Government of Lithuania of Social democrats and Social liberals, headed by Prime Minister Algirdas Brazauskas.

⁹ This can become quite real after amendments to the Law on Mandatory Health Insurance are passed, which will lay down a discriminative procedure for computing the size of compensations for pharmaceuticals.

This year, the usual summer calm of the economic life was coloured by the case of the Mazeikiai oil refinery. It was absolutely natural and foreseen, only surprising for astonishment and discussions about good and bad investors. From the economic point of view, a good investor is the one who invests with positive return. In this case, we should be more interested not in the image of the American company *Williams International*, but in the behaviour of our economic strategists. When the A. Brazauskas Administration declared that the agreement is not beneficial for Lithuania, I thought that perhaps they finally realised those obligations of the state that in principle should not be given to any investor, as they destroy the motivation to invest effectively and violates the rights of other businesses (e.g. the obligation to cover the company's losses from the budget, preferential tariffs of Lithuanian Railways and Oil Terminal services). Unfortunately, the badness of the agreement, in Prime Minister Brazauskas' view, was only insufficient powers of the government in adopting decisions regarding the management of the company. I wonder what the decisions would be in case such powers were in place. As if there were no one hundred percent state management before the privatisation of the company and no continuing lawsuits regarding various thefts. Such understanding of the privatisation process is reflected in the programs of most of the candidates for president: "the privatisation was not fair." What should we do: "to leave the management of strategic and infrastructure objects in the hands of the government?" A naïve question comes up – why to privatise at all then? (I know the answer: it's because of the income. But this is not discussed publicly – that would not be correct.)

The financial year ends with the next year's budget. The budget for 2003 has the same flaws as the previous ones. First, the programme principle is applied only formally, and the budget is allocated not to achieve the goals, but to finance the usual administrators of allocations in usual proportions. Second, the expenditure is based on the forecasts for the budget revenue and no scenarios are prepared for cases when the revenue is lower or higher. Third, funding for reforms¹⁰ is not assigned from the budget, but the spending for state governance and various support programmes is increasing. Fourth, and most important, even though the coming year is likely to be the year of "fat cows," the next year budget is unbalanced (and there is no reason to expect that the economy will grow so rapidly for seven consecutive years).

We are meeting the New Year after a tax revolution. The revolution, not so much concerning tax rates (although individual entrepreneurs and active investors soon experience their effects), but the approach to tax regulations. Up until now it was normal to hope that tax laws will become more precise, the actions of tax administrators - more predictive, and taxpayers - more certain that they have not become law-breakers or malicious tax-avoiders without even knowing it. However, the new tax laws have been written in a different spirit, which takes quite real shapes. Even at the end of December, accountants are still trying to figure out how to apply one or another provision and waiting for the clarifications of Ministry of Finance which, according to the

¹⁰ Even the pension reform will be financed from the surplus of the Social Insurance Fund, not from the national budget.

officials, will not be considered official. "Be creative" inspectors say to the accountants: "Read the law and apply it." The owners, managers and employees can only hope that they will not listen to that. But for real creators, neither the new Labour Code¹¹, nor the Law on Profit Tax, nor the new social insurance system for the self-employed is beneficial. It often seems that the prevailing opinion is that a creator cannot be self-standing. He has to be hired by some respectable and reliable institution, under the supervision and protection of which (the new Labour Code and trade unions take particular care about that) the creator will assuredly carry bricks to build in Lithuania the planned GDP. At the beginning of the New Year it would really be nice to wish everyone to be creative. But I cannot – not for everyone. It is quite risky to have to deal with a creative accountant, and creative official is a mere trouble.

(De) Coronation

The presidential and municipal election campaign this year coincided with the holidays. The televisions were just lucky, because they are quite better in organising political programs than the holiday programs, even though the holidays come every year. They were even luckier because there were candidates with money who spent them lavishly. Next year, we will see whether the electors were just as lucky.

Some analysts noted that presidential elections attracted much more attention than those for the municipality councils, even though the latter has much more influence on the matters that are of immediate importance to the people. There are various reasons for that, one of the major being the difference in competencies. For municipalities, it is important that the team was capable to work. The tasks here are quite specific, the budget resources are defined by superior authorities, and the results are seen rather soon. Therefore, there is no room for far-reaching visions or global intentions. In that case, there is not much to promise. It is quite the opposite for the president. As he acts together with all state institutions, it is very difficult to separate and evaluate his work, and the intentions are wide by definition. It is often said that the President does not decide anything in the economy. It is not true: he does. First, by proposing the Prime Minister, second, by signing or vetoing laws, third, by initiating laws, fourth, by publicly declaring his position. The latter function is particularly important for the society where economic understanding is very suitable for making promises. President Adamkus, who up until now successfully avoided using economic populism to improve his ratings, could hardly imagine that such behaviour is possible. It remains to realise what destructive effect that will have. The presidential post is probably the most convenient for the economic populists: formally, there is no responsibility for the economic decisions (no need to follow the income/spending balance, to carry out reforms, international financial

¹¹ According to the new Labour Code, the employer has no right to release an employee on unpaid holiday unless it is provided for in the collective agreement. Therefore, if a staff of three people working as poster-drawers decides to send one of them to improve qualification for a week in Paris, they will have to make a job contract, involving negotiations between the employee and the employer, councils, approved procedures and other legal toils, part of which is provided by law but not yet publicly announced.

obligations, etc.), but the obligation to take care of the people's welfare remains. So why not to cry over "pitiful pensions," "young people leaving abroad," "the poorly financed police," "expensive medicines" and other aspects of reality? And not only during the election campaign. Therefore, it is not only natural, but also very sensible that, when electing the president, people are interested in personal qualities of the candidates, and the analysts – in their standpoints and sound reason. Since the scope of the candidates' economic views is quite narrow and heavily leaning to the left, testing their sound reason is becoming one of the major criteria to take a voting decision. So why did it not help this time? I don't think the evaluators lacked sound reason. No, they just wanted badly to enjoy the royal castles, even though they were made of air. The only consolation is that people still maintain their skills to do laundry in a washtub.

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If you don't create a free market, a black market will emerge

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